

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI
(USPS/ANM-T1-8-9)

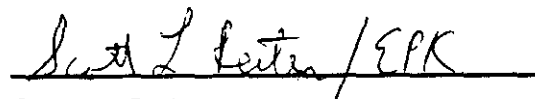
Pursuant to rules 25 and 26 of the Rules of Practice and procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to Alliance of Nonprofit Mailers witness Haldi: USPS/ANM-T1-8-9.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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June 19, 2000

USPS/ANM-T1-8. Please refer to page 10 of your testimony, where you state that:

A basic optimization problem faced by every firm is the selection of a cost-minimizing mix of inputs for producing a given quantity and quality of outputs at a given set of input prices. . . . Firms that produce a given volume and quality of outputs with a cost-minimizing mix of inputs are said to be operating on the efficiency frontier or production-possibility frontier. Firms that adopt a more costly mix of inputs are said to be operating inefficiently.

a. Throughout your testimony, you are critical of what you term the Postal Service's "failure" to test for cost-minimization. In the real world, do you believe that there is any test or analysis the Postal Service could attempt which would ever offer any realistic prospects of proving to the satisfaction of participants in postal ratemaking (including yourself) that the Postal Service is actually operating on the efficiency frontier, as you have described that condition above? If so, please provide full details on what that test is, what data would be required, and how the test should be conducted.

b. Assume hypothetically that the Postal Service did conduct an analysis or test to determine whether its operating plan was actually cost minimizing, and such analysis or test indicated that the Postal Service was not operating on the efficiency frontier (i.e., was "operating inefficiently"). What would be the significance of this result for postal ratemaking, in light of your acknowledgment (pg. 11) that the "standard here is not the perfection of 20/20 hindsight," that even "the best managers must work with incomplete data and uncertain projections," and that "[f]airness entitles management decisions to a certain amount of deference"?

c. Please confirm that postal management, without resort to the formal results of a global test of whether the Postal Service's operating plan was or was not cost minimizing at any given historical point in time, can identify specific opportunities to improve efficiency going forward, can develop plans and commit resources to capture

those cost savings, and can incorporate the effects of such cost reduction and productivity enhancing programs in the revenue requirement in postal rate cases submitted to the Postal Rate Commission. If you do not confirm, please explain fully.

USPS/ANM-T1-9. With respect to your proposed "remedy" of a disallowance of 1.2 cents per unit of outside-county Periodicals mail:

a. Please clarify that this proposed amount is independent of any of the contested costing methodological issues in this proceeding, and that you would advocate its application regardless of the costing methodologies adopted by the Commission.

b. Please clarify which of the following most nearly describes your proposal:

- (i) this amount constitutes what you believe the Commission should subtract from the unit costs, in addition to the cost savings (moving from the Base Year to the Test Year) already acknowledged by the Postal Service (either in its filing or in subsequent interrogatory responses), to reflect more fully the Postal Service's identified cost reduction programs, in order to arrive at a better estimate of what you believe actual Periodicals unit costs will be in the Test Year.
- (ii) this amount constitutes what you believe the Commission should subtract from the unit costs, in addition to the cost savings (moving from the Base Year to the Test Year) already acknowledged by the Postal Service (either in its filing or in subsequent interrogatory responses), to reflect identified (by you or someone else) cost reduction programs (in addition to the cost reduction programs identified by the Postal Service), in order to arrive at a better estimate of what you believe actual Periodicals unit costs will be in the Test Year.

- (iii) this amount constitutes what you believe the Commission should subtract from the unit costs, in addition to the cost savings (moving from the Base Year to the Test Year) already acknowledged by the Postal Service (either in its filing or in subsequent interrogatory responses), to reflect some as yet unidentified cost reduction programs (in addition to the cost reduction programs identified by the Postal Service), in order to arrive at a better estimate of what you believe actual Periodicals unit costs will be in the Test Year.
- (iv) this amount constitutes what you believe the Commission should subtract from the unit costs, in addition to the cost savings (moving from the Base Year to the Test Year) already acknowledged by the Postal Service (either in its filing or in subsequent interrogatory responses) to reflect the Postal Service's identified cost reduction programs, in order to arrive at a better estimate of what you believe Periodicals unit costs hypothetically should be, regardless of what actual Periodicals unit costs will be in the Test Year.

c. Please confirm that the specific amount of the "remedy" (1.2 cents per unit) is based exclusively on your Tables 7 and 8, and its calculation is in no way related to any of the analysis you have presented in sections III or IV of your testimony. If you cannot confirm, please show mathematically exactly how any of the matters discussed in those sections affected the calculation of your "remedy."

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter / SPK
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